The financial information disclosed by Enagás contains figures and measurements prepared in line with applicable accounting legislation, in addition to a series of measurements prepared in accordance with established reporting standards and developed internally, known as Alternative Performance Measures (APMs).

These APMs are considered to be adjusted figures compared to those disclosed under International Financial Reporting Standards as adopted in the EU (IFRS-EU), which is the applicable accounting framework for the Enagás Group's consolidated financial statements, and therefore should be considered by the reader to supplement but not replace these.

APMs are important for users of financial information as they are the measures used by Enagás' management to assess financial performance, cash flows and financial position for the Group's operational or strategic decision-making. These APMs are consistent with the main indicators used by the investment and analyst community in the capital markets.

Therefore, pursuant to the Guidelines issued by the European Securities and Markets Authority (ESMA), valid from 3 July 2016, relating to the transparency of Alternative Performance Measures, Enagás hereby provides the information relating to the APMs included in the management report for 2016 that are considered to be significant:

## 1. Alternative Performance Measures relating to the Income Statement

### ***EBITDA***

***EBITDA*** (*"Earnings Before Interest, Tax, Depreciation and Amortisation"*is an indicator that measures a company's operating income before the deduction of interest, taxes, depreciation and amortisation. By stripping out financial and tax figures, and accounting costs that do not imply a cash outflow, this indicator is used by Management to assess the company's earnings over time, and compare them with those of other companies in its sector.

EBITDA ***is*** calculated as Operating income plus depreciation and amortisation, in addition to any impairment, and other items that do not imply cash inflows or outflows in Enagás' operations (such as capital gains or losses on disposals, provisions, etc). The reconciliation from Operating Income seen in the financial statements for the period ended 31 December 2016 is shown below:

| | 2016 EBITDA |
|---|---|
| Operating income | 610.5 |
| Depreciation and amortisation | 271.5 |
| Impairment and other items | 0.5 |
| **EBITDA** | **882.6** |

In addition, the reconciliation between this APM and the figures relating to Total Revenue and Operating Expenses seen in the interim consolidated financial statements for the period ended 31 December 2016 is shown below (in millions of euros)

| | 2016 EBITDA |
|---|---|
| Total revenue (*) | 1,218.3 |
| Operating expenses (*) | -335.6 |
| **EBITDA** | **882.6** |

*(*) For management purposes, the "Other revenue" heading includes in the income statement the "Change in traffic provisions" item in the amount of €0.762 Mn by the nature of its balance. In the Financial Statements for the period ended 31 December 2016 this item is included under "Other operating expenses"*

***Adjusted EBITDA***

Adjusted ***EBITDA*** **is** an indicator that measures the company's operating income before the deduction of interest, taxes, depreciation and amortisation, and includes dividends received as interest on subordinated debt from associates that are consolidated by the Enagás Group under the equity method.

This measure is used by the Management to calculate the leverage ratios described in the section "Alternative Performance Measures relating to the Balance Sheet and leverage ratios", enabling them to be compared with those of other sector companies. The reconciliation of adjusted EBITDA for 2015 and 2016 is shown below, which is used to calculated leverage ratios:

| | 2015 | 2016 |
|---|---|---|
| EBITDA | 900.5 | 882.6 |
| Dividends (*) | 48.9 | 90.5 |
| **Adjusted EBITDA** | **949.4** | **973.1** |

*(*) Includes interest on subordinated debt charged to investees.*

***EBIT***

***EBIT*** (*"Earnings Before Interest and Taxes"*is an indicator that measures a company's operating income before the deduction of interest and taxes. As with the previous indicator, it is used by Management to assess the company's earnings over time, and compare them with those of other companies in its sector.

***EBIT*** is calculated the same way as EBITDA, deducting depreciation and amortisation, in addition to any impairment, and other items that do not imply cash inflows or outflows in Enagás' operations (such as capital gains or losses on disposals, provisions, etc).

EBIT reported in the interim management report for 2016 totalled €610.5 Mn and coincides with Operating Income for that period.

## 2. Alternative Performance Measures relating to the Balance Sheet and leverage ratios

***Net Debt***

Net ***finance debt or Net Debt*** is the main indicator used by Management to measure the level of the Group's debt. It is gross debt less cash.

To calculate ***the gross debt*** the headings "Bank loans", "Bonds and other marketable securities" measured at amortised cost and in relation to "Other long-term loans" are added, including the amount of the guarantees relating to the GSP project and the loans from the General Energy and Industry Secretariat, the General Energy Secretariat and Oman Oil.

Cash is taken from the Balance Sheet heading "Cash and cash equivalents".

The reconciliation between the APM and the figures corresponding to the interim consolidated balance sheet for the period ending 31 December 2016 are shown below (in millions of euros):

| | Net Debt Dec – 2016 |
|---|---|
| Cash and cash equivalents | 785.5 |
| Bank loans | -2,056.7 |
| Bonds and other marketable securities (1) | -3,590.9 |
| Other long-term loans (2) | -226.5 |
| **Net debt** | **-5,088.7** |

*(1) The adjustment made to show the amortised cost of the Aflac Bond is €20.8 Mn.*

*(2) The amount included for the guarantees relating to the GSP project is €221.2 Mn while the amount of the loans from the General Energy and Industry Secretariat, the General Energy Secretariat and Oman Oil is €5.3 Mn*

## ***Ratios linked to Net Debt***

Management uses two ratios to analyse leverage the Group's capacity to meet its financial obligations over time, comparing these with other companies in the sector.

Both ratios compare net debt calculated at the date of the financial statements with the figures on the Income Statement (EBITDA) and Cash Flow statement.

The **ratio linked to leverage** is calculated as net debt/adjusted EBITDA, as follows:

| | Net Debt / Adjusted EBITDA Dec – 2016 |
|---|---|
| Net Debt | 5,088.7 |
| Adjusted EBITDA | 973.1 |
| **Net debt / adjusted EBITDA ratio** | **5.2x** |

The **ratio linked to the capacity to generate flows on net debt is** calculated as FFO / net debt as follows:

| | FFO / net debt Dec – 2016 |
|---|---|
| FFO (*) | 756.8 |
| Net debt | 5,088.7 |
| **FFO / net debt ratio** | **15%** |

*(*) This figure is explained below in the Alternative Performance Measures relating to the Cash Flow and Investments section.*

## 3. Alternative Performance Measures relating to the Cash Flow and Investments

***Funds from Operations (FFO)***

**FFO** is the main cash flow generation indicator analysed by Enagás' Management as it jointly measures cash generation in the regulated and unregulated domestic business and in the international business in the form of dividends from investees or interest charged on subordinated debt extended to these companies, after deducting both the payment of taxes and interest relating to the Group's financial debt.

It is calculated as:

**FFO =** EBITDA +/- taxes received/paid – interest paid + dividends received from investees + interest on subordinated debt charged to investees.

FFO in 2016 amounted to €756.8 Mn. The reconciliation between this APM and the figures seen in the financial statements for the period ended 31 December 2016 is shown below:

| | FFO<br>Dec – 2016 |
|---|---|
| Operating income | 610.5 |
| Depreciation and amortisation | 271.5 |
| Impairment and other items | 0.5 |
| **EBITDA** | **882.6** |
| Taxes received /(paid) | -116.4 |
| Interest paid (*) | -86.0 |
| Dividends (*) | 90.5 |
| Other adjustments | -13.9 |
| **FFO** | **756.8** |

*(*) Interest on subordinated debt charged to investees is included, for management purposes, under "Dividends."*

***Operating cash flow (OCF)***

**Operating cash flow** measure the company's capacity to generate operating cash flow after changes in working capital. The calculation is based on FFO and includes changes in working capital

**OCF** amounted to €627.8 Mn in 2016. The reconciliation between this APM and the figures seen in the interim consolidated financial statements for the period ended 31 December 2016 is shown below (in millions of euros):

| | OCF<br>Dec – 2016 |
|---|---|
| **FFO** | **756.** |
| Changes in working capital | -128.9 |
| **OPERATING CASH FLOW (OCF)** | **627.8** |

***<u>Free cash flow ("FCF")</u>***

Free ***cash flow*** measures cash generation from operating and investment activities, and is considered by Enagás to be a key APM as it is the indicator used to assess the funds available to pay dividends to shareholders and to service debt.

Reported **FCF** in 2016 amounted to €272.1 Mn. The reconciliation between this APM and the figures seen in the interim consolidated financial statements for the period ended 31 December 2016 is shown below (in millions of euros):

| | FCF<br>Dec – 2016 |
|---|---|
| **OPERATING CASH FLOW (OCF)** | **627.8** |
| Payments for investments | -912.1 |
| Divestment proceeds | 12.2 |
| Other cash flows from investing activities | - |
| **Free Cash flow (FCF)** | **-272.1** |

***<u>Discretional Cash Flow ("DCF")</u>***

Discretional ***cash flow*** is an APM used by Management to manage existing funding needs. It is defined as free cash flow (FCF) less dividends paid to shareholders.

Reported **DCF** in 2016 amounted to -€594.3 Mn. The reconciliation between this APM and the figures seen in the interim consolidated financial statements for the period ended 31 December 2016 is shown below (in millions of euros):

| | DCF<br>December – 2016 |
|---|---|
| **Free Cash flow (FCF)** | **-272.1** |
| Dividend payments | -322.2 |
| **Discretional Cash Flow (DCF)** | **-594.3** |